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Taiwan

Dairy and Products Annual

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Report Highlights:

Taiwan's CY 2011 fluid milk production is estimated to continue declining slightly, down 2%, reaching 319,000 metric tons. The factors include the increasingly high temperatures in the summer months and the robust demand in the restaurant sector (especially tea/coffee shops). Given the difficulty for the industry to expand the herd size in the short-term; the industry has to rely on the imports of fluid milk, which therefore are forecast to continue growing. Indeed, the imports of fluid milk have increased by 45% in the first seven months in CY 2010 compared to CY 2009. The CY 2011 fluid milk imports are forecast to reach 24,000 metric tons, up 33% compared to CY 2010.

Executive Summary:

Taiwan's CY 2011 fluid milk production is estimated to continue declining slightly, down 2%, reaching 319,000 metric tons. The factors include the increasingly high temperatures in the summer months and the robust demand in the restaurant sector (especially tea/coffee shops). Given the difficulty for the industry to expand the herd size in the short-term; the industry has to rely on the imports of fluid milk, which therefore are forecast to continue growing. The imports of fluid milk have increased by 45% in the first seven months in CY 2010 compared to CY 2009. The CY 2011 fluid milk imports are forecast to reach 24,000 metric tons, up 33% compared to CY 2010.

Due to the relatively high production costs and insufficient milk supply, Taiwan does not produce cheese, milk powder, butter or whey in commercial quantity. The industry relies on the imports to meet their demand. Taiwan's imports of cheese and whey are forecast to continue growing as there is a trend showing increasing consumption for cheese in the food service sector and the relative competitive pricing to grains for whey in the feed market.

Commodities:

Dairy, Milk, Fluid

Production:

The CY 2011 fluid milk production is estimated to continue declining slightly, reaching 319,000 metric tons. The factors include the increasingly high temperatures during the summer and the robust demand by the HRI sector (especially tea/coffee houses).

Taiwan's domestic milk production accounts for 95% of total market supply. In terms of product mix, cow milk accounts for 95% and another 5% is held by goat milk.

The temperatures in the summer months keep breaking record highs, which results in less milk production from domestically raised Holstein dairy cows. Although Taiwan farmers want to expand their herd sizes, it is difficult for them to increase production in the short-term because they are dependent on imports for almost all inputs, i.e. seed stock and feed. In CY 2009, the herd sizes of dairy cow and dairy goat were 53,230 and 33,759 respectively. The total number of dairy cows is forecast to remain unchanged in CY 2011.

The Council of Agriculture (COA) in Taiwan regulates the reference prices corresponding to different percentage of fat in raw milk. In CY 2009, the minimum required fat percentage in selling raw milk was 2.8%. The reference prices per kilogram for raw milk was US\$0.62 during December and March, US\$0.79 during April and May/October and November, and US\$0.86 during June and September.

Consumption:

The CY 2011 fluid milk consumption is forecast to reach 367,000 metric tons. 60% of the consumption is estimated to occur in the HRI sector and in convenience stores. According to the statistics from the COA, the per capita consumption for fresh milk was 18.99kg in CY 2009.

Three key domestic processing plants—WeiChuan, Uni President, and Kuan-Chuan account for 70% market share of fluid milk, though there are 19 players in total. All of the processing plants purchase raw cow milk from 579 dairy farms on an annual contract basis.

The end-user market size of fluid milk is estimated US\$3 billion in 2010. Taiwan consumers prefer whole fat milk, which accounts for 70% of market share. The peak season of fluid milk is summertime, from May to October, which holds 70% of annual sales.

The market is forecast to keep growing due to the robust demand in the HRI sector, such as tea/coffee shops and convenience stores. The increasing use of fluid milk in these sectors is attributed to the melamine incident in 2008, when the media reported on the tainted imported Chinese milk powder and consumers were shied away from consuming milk powder. Thus, these tea/coffee shop owners started to highlight their substitution of fresh milk in replacement of conventional low-cost milk powder in their ready-to-drink coffee and milk tea. This alternative created a premium appeal to consumers and the idea of freshness revamped the product offering. As the ready-to-drink coffee market in the convenience stores keeps increasing with double digit growth, the milk, being a supplementary product to coffee, is expected to grow. The National Animal Industry Foundation indicates that the demand for fresh milk in these sectors is estimated at 150 metric tons per day.

Trade:

Taiwan Imports of Fluid Milk (HS Code: 0401)

unit: mt

Month	2009/01-2009/07	2010/01-2010/07	Growth (%)
Total	5,679	8,245	45.2%
Jan.	528	1,509	185.9%
Feb.	644	1,100	70.9%
Mar.	709	1,149	61.9%
Apr.	1,069	843	-21.1%
May	672	915	36.0%
Jun.	1,024	1,378	34.6%
July	1,033	1,351	30.8%

The imports of fluid milk have increased by 45% in the first seven months in CY 2010 compared to CY 2009. The increase of the imports is due to the decreased domestic production and the robust demand.

New Zealand accounts for the biggest share of 36% of Taiwan imports of fluid milk. However, Taiwan imports of New Zealand fluid milk have declined slightly due to its unstable supply. France has taken advantage of the market growth; the imports of French fluid milk grew 80% in the first half of CY 2010, reaching 2,288 metric tons.

There have been inquiries from processing plants about importing dairy cows since 2009. Partially due to restrictions of the exports from the disease-infected countries and partially due to the high demand for dairy cows as well from other competitive buyers, such as China, no cows have been imported by Taiwan since 2009. It is likely that the industry will be pushed to import dairy cows in the upcoming years to meet the surging demand.

According to Taiwan's Bureau of Animal and Plant Health Inspection Council, cattle is prohibited from importation from a country (zone) which has been recognized as a country (zone) infected with the following animal diseases: Foot and mouth disease, rinderpest, contagious bovine pleuropneumonia and Bovine spongiform encephalopathy.

Policy:

Tariff Rate Quota (TRQ)

With Taiwan's accession to WTO on January 1, 2002, imports of the formerly-banned fluid milk are subject to Tariff Rate Quota (TRQ) and Special Safeguards (SSG) controls.

- Taiwan adopted the system II of TRQ rules to regulate imported fluid milk. The import rights are auctioned once a year. All importers registered with Taiwan's Board of Foreign Trade (BOFT) are eligible to bid on quota rights. Quota allocation certificates serve as automatic import licenses for fluid milk imports. The minimum quantity for the bidding is 250 mt. The annual TRQ volume for fluid milk is 21,298 mt. The duty for in-quota fluid milk is 15%, and for out-of-quota duty, it is NT\$15.6 per kg, equivalent to US\$489 per mt.
- In November 2009, 14,251 mt of the year 2010's TRQ volume was successfully sold to 9 companies. The demand was low but has been increased by 106% compared to the year 2006. The importers reportedly were able to win the bid by paying minimum tender operation fee at US\$15 per metric ton. The year 2011's TRQ for fluid milk will be auctioned in November 2010.

Imports Data of Fluid Milk (unit: mt, HS code: 0401)

Source: Customs data, Bank of Taiwan web site

CY	2006	2007	2008	2009	2010
Imports under TRQ	6,783	4,321	4,117	8,235	14,251
Total imports	11,042	9,321	8,757	13,691	N/A
TRQ fill rate (%)	61%	46%	47%	60%	N/A

The Ministry of Finance (MOF), which is responsible for the TRQ allocation, has entrusted the Bank of Taiwan (BOT) to implement the TRQ application and allocation process. All TRQ relevant information can be retrieved from the BOT website: <http://www.bot.com.tw/Trade/Pages/default.aspx>.

Special Safeguards (SSG)

The Taiwan government also adopted SSG to control the volume of imported fluid milk. The Taiwan's Department of Treasure determines a quantity trigger and a unit base price trigger of fluid milk. If the imports of fluid milk exceed the SSG quantity trigger or fall below its SSG unit price trigger, they are subject to out-of-quota duty. For those imports beyond TRQ and above the SSG's quantity trigger, they are subject to an additional 33.3% surcharge of out-of-quota imports. The COA's SSG quantity trigger for fluid milk in 2010 is 4,215 mt.

Duty

- Fluid milk: For imports within the TRQ volume, the tariff is subject to 15%. For imports out of the TRQ volume, the tariff applies to NT\$15.6 per kg, equivalent to US\$489 per metric ton.
- For imports beyond TRQ and above SSG's quantity trigger, an additional 33.3% surcharge is applied.
- Goat/sheep milk applies to the tariff of 20% and is not subject to any TRQ or SSG limits.

Fresh Milk Seals

The COA has been promoting domestic fresh milk seals to consumers. Thus, consumers are educated to think of the fresh milk with the authorized seal on the packaging to be of better quality.

The seals are authorized based on the industry's application. Only domestic registered processing plants are eligible to apply for fresh milk seals from the COA to label on finished product packages. The quantities of seals are strictly controlled by the COA. The COA reviews each application of the seals and controls the volume of authorized seals based on the volume of raw milk these processing plants purchase from the dairy farms.

Fresh Milk Seal authorized and issued by the COA



Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Taiwan	2009			2010			2011		
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Cows In Milk	53		53	55		53			53

Cows Milk Production	320		322	340		312			303
Other Milk Production	18		17	18		17			17
Total Production	338		339	358		329			320
Other Imports	13		14	13		18			24
Total Imports	13		14	0		18			24
Total Supply	351		353	371		347			344
Other Exports	0		0	0		0			0
Total Exports	0		0	0		0			0
Fluid Use Dom. Consum.	351		141	371		138			138
Factory Use Consum.	0		212	0		209			206
Feed Use Dom. Consum.	0		0	0		0			0
Total Dom. Consumption	351		353	371		347			344
Total Distribution	351		353	371		347			344
CY Imp. from U.S.	0		0	0		0			0
CY. Exp. to U.S.	0		0	0		0			0

unit: 1000 MT, 1000 Head

Commodities:

Dairy, Cheese

Production:

Taiwan doesn't produce cheese in commercial quantity.

Consumption:

The CY 2011 cheese consumption is forecast to reach 27,000 metric tons, with an estimated growth rate of 17% compared to CY 2010. The growth is attributed to the increased consumption from the food service segment. The consumption of cheese in the food service segment has the potential to grow, since the applications of mozzarella and cheddar are versatile in western-style dishes but local chefs haven't gained full knowledge about these products.

Sliced cheeses account for 65% of consumption in the retail sector. On a per capita basis, cheese consumption in Taiwan (0.7 kg in 2008) is still very small compared to most Western countries and Japan. However, Taiwan consumers have developed more sophisticated tastes for cheese products in recent years. In the past, consumers tended to associate cheese with pizza or sandwiches. Nowadays, consumers eat cheese in a variety of foods and meals. Cheese is also being applied as a topping to baked potatoes.

Trade:

Taiwan imports of cheese in the first seven months of CY 2010 reached 12,000 metric tons, up 23% compared to 2009. The growth is attributed to the growing demand in the baking sector and the fading impact of a melamine food contamination scandal that also undermined the baking industry in 2008.

New Zealand holds 40% market share of Taiwan's cheese imports. Both New Zealand and Australia are strong in the low-priced cheese sector targeting the retail segment. U.S. cheese exports to Taiwan are expected to continue steaming along at better than at least 10 percent growth each year, especially in the food service segment.

Production, Supply and Demand Data Statistics:

Dairy, Cheese Taiwan	2009			2010			2011		
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks			0			0			0
Production			0			0			0
Other Imports			18			23			27
Total Imports			18			23			27
Total Supply			18			23			27
Other Exports			0			0			0
Total Exports			0			0			0
Human Dom. Consumption			18			23			27
Other Use, Losses			0			0			0
Total Dom. Consumption			18			23			27
Total Use			18			23			27
Ending Stocks			0			0			0
Total Distribution			18			23			27
CY Imp. from U.S.			0			0			0
CY. Exp. to U.S.			0			0			0
TS=TD			0			0			0

unit: 1000 MT

Commodities:

Dairy, Dry Whole Milk Powder

Production:

Taiwan doesn't produce milk powder in commercial quantity.

Consumption:

The CY 2011 milk powder consumption is forecast to maintain the same level as CY 2010, reaching 32,000 metric tons, as the impact of the melamine incident in CY 2008 has faded away and the demand has bounced back in CY 2010.

Trade:

Taiwan imports of milk powder are forecast to reach 32,000 metric tons in CY 2011. 80% of milk powder imports are imported by Fonterra's Taiwan branch, which has a special partnership with New Zealand suppliers. Whole-fat milk powder is used pervasively in baking and it is very price-sensitive.

The melamine incident in 2008 changed the traditional buying criteria for importers and bakers. Before its outbreak, bakers didn't consider the origin of milk powder as long as it was price competitive. After the incident, product of origin became a concern to consumers and that affected the buyer's selection criteria. Milk powder from China has been banned for imports according to Taiwan's Department of Health regulations since the melamine incident.

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder Taiwan	2009			2010			2011		
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	0		0	0		0			0
Production	0		0	0		0			0
Other Imports	28		28	29		32			32
Total Imports	28		28	29		32			32
Total Supply	28		28	29		32			32
Other Exports	0		0	0		0			0
Total Exports	0		0	0		0			0
Human Dom. Consumption	28		28	29		32			32
Other Use, Losses	0		0	0		0			0
Total Dom. Consumption	28		28	29		32			32
Total Use	28		28	29		32			32
Ending Stocks	0		0	0		0			0
Total Distribution	28		28	29		32			32
CY Imp. from U.S.	0		0	0		0			0
CY. Exp. to U.S.	0		0	0		0			0

unit: 1000 MT

Commodities:

Dairy, Butter

Production:

Taiwan doesn't produce butter in commercial quantity.

Consumption:

The CY 2011 butter consumption is forecast to grow by 7%, reaching 16,000 metric tons. The growth is attributed to the consumption from the expanding numbers of bakeries.

In the past, domestic processing plants made use of the milk waste to produce butter, considered as a cheap side-product and resold it to bakeries. However, nowadays, due to the surging demand for milk, the domestic plants do not have capacity to produce butter. Thus, the imports of butter are expected to grow.

Trade:

Taiwan imports of butter are forecast to increase by 7% in CY 2011. New Zealand accounts for 65% of the market share, due to the success of the Anchor brand in the baking industry. Anchor has the first-mover advantage as being positioned as high-quality butter along with its intensive mass media branding campaign. The bakers are convinced with its product advantage as having a stable high melting point, which they cannot find in other brands.

Production, Supply and Demand Data Statistics:

Dairy, Butter Taiwan	2009			2010			2011		
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	0		0	0		0			0
Production	0		0	0		0			0
Other Imports	9		14	10		15			16
Total Imports	9		14	10		15			16
Total Supply	9		14	10		15			16
Other Exports	0		0	0		0			0
Total Exports	0		0	0		0			0
Domestic Consumption	9		14	10		15			16
Total Use	9		14	10		15			16
Ending Stocks	0		0	0		0			0
Total Distribution	9		14	10		15			16
CY Imp. from U.S.	0		0	0		0			0
CY. Exp. to U.S.	0		0	0		0			0

unit: 1000 MT

Author Defined:

Commodities:
Dairy, Whey**Production:**

Taiwan doesn't produce whey in commercial quantity.

Consumption:

The CY 2011 whey consumption is forecast to reach 17,000 metric tons. Yogurt production accounts for the biggest volume but also the most price-sensitive segment for whey. The domestic yogurt manufacturers usually produce other dairy products than yogurt. Therefore, they have the need to purchase from importers multiple dairy ingredients, such as milk powder, whey, etc. The biggest importer sourcing milk powder takes the advantage of bundle-selling at competitive prices.

The imports of whey products are dominated by a handful of importers. The market grows stably because the product applications in the baking and food processing haven't been penetrated. The manufactures are still doubtful regarding differentiation of whey protein compared to soy protein and milk powder in the baking and food processing. The industry is concerned about whey protein's flapper flavor and twice higher prices than milk powder and soy protein. So far, the baking industry is not fully aware nor convinced about whey's application.

Trade:

Taiwan imports of whey in CY 2009 reached 15,421 metric tons, up 23% compared to 2008. Yet the total market value declined by 5%. It is anticipated that the growth of the volume comes from the low-cost sweet whey. As the grain prices keep going up, sweet whey, as a substitute, will be in a position to take advantage in the feed segment. The imports in CY 2011 are forecast to keep growing, reaching 17,000 metric tons. The imports of Whey Protein Concentrate (WPC) have grown significantly due to the small volume base of 246 metric tons. Netherlands and New Zealand have joined the competition and started to grab market share since 2009.

Others

The U.S. Dairy Export Council (USDEC) represents the U.S. dairy industry in Taiwan. The council's staff provides market intelligence on the trade policy issues and develops marketing activities to promote U.S. dairy products to the Taiwan trade contacts and consumers. Below please find the contact information of the USDEC Taiwan office.

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